



MBHASHE LOCAL MUNICIPALITY (EC 121)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

General Information

Nature of business and principal activities

The Municipality is responsible for the following activities:

- collection of rates in respect of property
- refuse and solid waste removal
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction
- traffic control, issue of learners licences and renewal of drivers licences

The following is the list of Councillors as at 30 June 2015

Mayoral committee

Mayor

Ms N. O. Mfecane

Speaker

Mr M. M. Mcotsho

Members of the Executive Committee

Mr M. Peter

Miss X. O. Willie

Mr M. Mbomvu

Mr F. Khekhetshe

Mr V. S. K Mbewu

Ms N. Xhungu

Mr M. Tetyana

Mr M. Noyila

Ms X. P. Baleni

Mr S. Hoyo

Mr P. Rulumeni

Mrs N. N. Nkqwiliso

Miss N. Tswila

Mr Kalityi

Mr M. Potelwa

Mr M. T. Nodliwa

Mr X. A. Zimba

Mr M. Khwakhwi

Mr B. Jamnda

Mr S. Mpongwana

Ms N. Sigcau

Mr T. Tshika

Miss Z. Khosi

Ms C. N. Buyeye

Mr M. Tyali

Mr P. Faniso

Mr M. J. Savu

Miss N. Kopolo

Mr S. Ndinisa

Mr M. Mapungu

Ms V. Matiwane

Mrs N. Magatya

Miss N. Mtsi

Mr B. Maqelana

Mr L. Gogoba

Mr M. Majiya

Miss N. Stefana

Mr B. Sigcawu

Miss N. Mlungu

Chief WHIP

Councillors

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

General Information

Ms N. M. Mlandu
Ms N. Ncetani
Ms N. Janda
Ms N. B. Benya
Mr V. A. Somana
Miss X. M. Tyodana
Mr M. S. Jafta
Mr N. V. Lumkwana
Ms N. Nonjaca
Mr a Bambiso
Mr P. Methu
Miss F. Mbiko
Mr N. Ndlodaka
Mr K. D. Msindwana
Miss Y. G. Mhlathi
Mr M. Takani
Mr S. Wulana
Miss T. Mafanya
Mr Ngqola

Grading of local authority

3

Accounting Officer

Mr S. V. Poswa

Chief Financial Officer

Mr X. Sikobi

Registered office

454 Steatfield Road
Dutywa
5000

Postal address

P.O. Box 25
Dutywa
5000

Bankers

First National Bank (62231175953)

Auditors

Auditor-General of South Africa
Chartered Accountants (S.A.)

Traditional Leaders

Mr Masiko
Mr Salakuphathwa
Mrs A. N. Sigcawu
Mr F. F. Ndim
Mr S. Nyendani
Mr M. Sigcawu
Mr B. S. Sigidi
Mr M. Titshala
Mr Vuyisile
Mr N. Ngubechanti
Mr S. X. Ndevu
Mr N. W. Zenani

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

General Information

Relevant Legislation

Basic Conditions of Employment Act 75 of 1997
Broad Based Black Economic Empowerment Act 53 of 2003
Constitution of the Republic of South Africa Act, 1996
Deeds Registries Act 47 of 1937
Disaster Management Act 57 of 2002
Division of Revenue Act 10 of 2014
Electoral Act 73 of 1998
Electoral Commission Act 51 of 1996
Intergovernmental Relations Framework Act 13 of 2005
Interim Protection of Informal Lands Rights Act 31 of 1996
Labour Relations Act 66 of 1995
Local Government : Municipal Demarcation Act 27 of 1998
Local Government : Municipal Electoral Act 27 of 2000
Local Government : Municipal Finance Management Act 56 of 2003
Local Government : Municipal Property Rates Act 6 of 2004
Local Government : Municipal Structures Act 117 of 1998 (as amended)
Local Government : Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003)
Local Government : Municipal Fiscal Powers and Functions Act No 12 of 2007
Prescription Act 18 of 1943
Prescription Act 68 of 1969
Prevention and Combating of Corrupt Activities Act
Prevention of Illegal eviction from an Unlawful Occupation of Land Act 19 of 1998
Promotion of Access to Information Act 2 of 2000
Promotion of Administrative Justice Act 3 of 2000
Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000
Protected disclosures Act 26 of 2000
Public Audit Act 25 of 2004
Re-Determination of the Boundaries of Cross-Boundary Municipality Act 6 of 2005
Reconstruction and Development Program Fund Act 7 of 1994
Regional Services Councils Act 109 of 1985
Regulation of Gatherings Act 205 of 1993
Removal of Restrictions Act 84 of 1967
Remuneration of Public Office Bearers Act 20 of 1998
Skills Development Act 97 of 1998
Skills Development Levies Act 9 of 1999
South African National Roads Agency Limited and National Roads Act 7 of 1998
Tobacco Products Control Act 83 of 1993
Traditional Leadership and Governance Framework Act 41 of 2003
Transfer of Staff to Municipalities Act 17 of 1998
Unemployment Insurance Act 63 of 2001
United Municipal Executive (Pension) Act 12 of 1958
Value Added Tax 1991

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	5
Statement of Financial Position	6
Statement of Changes in Net Assets	8
Statement of Financial Performance	7
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 25
Notes to the Annual Financial Statements	26 - 65

Abbreviations

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
PPE	Property, Plant and Equipment
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Service
VAT	Value Added Tax

MBHASHE LOCAL MUNICIPALITY (EC 121)

Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

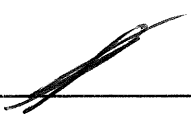
The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on page 5 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:



Mr S. V. Poswa
Municipal Manager

Place of signature

31 August 2015

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	1 568 538	-
Receivables from non-exchange transactions	35	556 377	705 841
VAT receivable	4	11 144 656	2 634 033
Consumer debtors	5	668 594	521 565
Cash and cash equivalents	6	145 033 293	113 514 043
		158 971 458	117 375 482
Non-Current Assets			
Investment property	7	47 080 100	47 080 100
Property, plant and equipment	8	484 483 715	452 688 427
Intangible assets	9	446 857	87 993
Heritage assets	34	9	9
		532 010 681	499 856 529
Total Assets		690 982 139	617 232 011
Liabilities			
Current Liabilities			
Lease obligation	36	10 711 811	-
Payables from exchange transactions	10	14 252 762	8 354 959
Unspent conditional grants and receipts	11	15 978 536	20 053 536
Provisions	12	315 243	291 694
Bank overdraft	6	-	2 141 510
		41 258 352	30 841 699
Non-Current Liabilities			
Lease obligation	36	20 752 887	4 157
Non current operating lease liability		-	14 108
Employee benefit obligation	13	2 393 117	1 841 507
Provisions	12	6 914 675	2 402 846
		30 060 679	4 262 618
Total Liabilities		71 319 031	35 104 317
Net Assets		619 663 108	582 127 694
Net Assets			
Accumulated surplus		619 663 088	582 127 694

* See Note 38

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Service charges	17	1 024 394	764 933
Rental of facilities and equipment		988 282	761 979
Other income	18	1 085 204	620 848
Interest earned	19	9 273 742	6 022 423
Property rates	16	6 867 696	4 365 455
Licence and permits		722 749	951 983
Government grants & subsidies	15	220 520 286	183 369 750
Fines and penalties		392 313	626 813
Total revenue		240 874 666	197 484 184
Expenditure			
Employee related costs	20	(43 331 209)	(38 122 476)
Remuneration of Councillors	21	(21 814 912)	(18 866 589)
Depreciation and amortisation		(56 338 876)	(53 321 268)
Finance costs	22	(3 978 698)	(166 143)
Debt Impairment	23	(2 554 155)	(963 238)
Administrative and other expenditure	24	(72 926 775)	(83 286 505)
Total expenditure		(200 944 625)	(194 726 219)
Operating surplus		39 930 041	2 757 965
Loss on disposal of assets		(2 281 325)	(762 552)
Surplus for the year		37 648 716	1 995 413

* See Note 38

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	333 256 055	333 256 055
Correction of errors - refer to note 38.1	246 876 226	246 876 226
Balance at 01 July 2013 as restated*	580 132 281	580 132 281
Changes in net assets		
Surplus for the year	1 995 413	1 995 413
Total changes	1 995 413	1 995 413
Restated* Balance at 01 July 2014	582 014 372	582 014 372
Changes in net assets		
Surplus for the year	37 648 716	37 648 716
Total changes	37 648 716	37 648 716
Balance at 30 June 2015	619 663 088	619 663 088

* See Note 38

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		(4 591 762)	6 043 461
Grants		216 445 286	190 409 071
Interest income		9 273 742	6 022 423
Other receipts		3 188 548	2 961 623
		<u>224 315 814</u>	<u>205 436 578</u>
Payments			
Employee costs		(65 146 121)	(56 824 540)
Suppliers		(65 640 353)	(82 160 921)
Finance costs		(3 978 698)	(166 143)
		<u>(134 765 172)</u>	<u>(139 151 604)</u>
Net cash flows from operating activities	32	<u>89 550 642</u>	<u>66 284 974</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(86 908 160)	(23 843 341)
Proceeds from sale of property, plant and equipment	8	-	373 202
Purchase of other intangible assets	9	(442 263)	-
Net cash flows from investing activities		<u>(87 350 423)</u>	<u>(23 470 139)</u>
Cash flows from financing activities			
Finance lease payments		31 460 541	-
Net increase in cash and cash equivalents		<u>33 660 760</u>	<u>42 814 835</u>
Cash and cash equivalents at the beginning of the year		111 372 533	68 557 698
Cash and cash equivalents at the end of the year	6	<u>145 033 293</u>	<u>111 372 533</u>

* See Note 38

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	770 573	-	770 573	1 024 394	253 821	41.1
Rental of facilities and equipment	770 424	400 000	1 170 424	988 282	(182 142)	41.2
Other income	10 721 470	709 889	11 431 359	1 085 204	(10 346 155)	41.3
Interest received - investment	4 000 000	500 000	4 500 000	9 273 742	4 773 742	41.4
Total revenue from exchange transactions	16 262 467	1 609 889	17 872 356	12 371 622	(5 500 734)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	5 843 820	-	5 843 820	6 867 696	1 023 876	41.5
Licenses and permits	1 672 704	-	1 672 704	722 749	(949 955)	41.6

Transfer revenue

Government grants & subsidies	223 191 000	13 844 166	237 035 166	220 520 286	(16 514 880)	41.7
Fines, Penalties and Forfeits	919 476	(458 650)	460 826	392 313	(68 513)	41.8

Total revenue from non-exchange transactions	231 627 000	13 385 516	245 012 516	228 503 044	(16 509 472)	
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Total revenue	247 889 467	14 995 405	262 884 872	240 874 666	(22 010 206)	
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Expenditure

Personnel	(70 484 653)	(2 183 833)	(72 668 486)	(43 331 209)	29 337 277	41.9
Remuneration of councillors	(20 132 759)	-	(20 132 759)	(21 814 912)	(1 682 153)	
Depreciation and amortisation	(33 467 015)	-	(33 467 015)	(56 338 876)	(22 871 861)	41.10
Finance costs	-	-	-	(3 978 698)	(3 978 698)	41.11
Lease rentals on operating lease	(1 204 162)	(200 000)	(1 404 162)	-	1 404 162	41.12
Bad debts written off	(1 010 344)	-	(1 010 344)	(2 554 155)	(1 543 811)	41.13
Repairs and maintenance	(25 359 721)	(5 320 000)	(30 679 721)	-	30 679 721	41.14
General Expenses	(62 934 052)	(9 459 591)	(72 393 643)	(72 926 775)	(533 132)	41.15

Total expenditure	(214 592 706)	(17 163 424)	(231 756 130)	(200 944 625)	30 811 505	
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Operating surplus	33 296 761	(2 168 019)	31 128 742	39 930 041	8 801 299	
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Loss on disposal of assets and liabilities	100 000	-	100 000	(2 281 325)	(2 381 325)	
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Surplus	33 396 761	(2 168 019)	31 228 742	37 648 716	6 419 974	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	33 396 761	(2 168 019)	31 228 742	37 648 716	6 419 974	
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MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Receivables from exchange transactions	-	-	-	1 568 538	1 568 538
Receivables from non-exchange transactions	5 726 100	-	5 726 100	556 377	(5 169 723)
VAT receivable	-	-	-	11 144 656	11 144 656
Consumer debtors	1 698 326	-	1 698 326	668 594	(1 029 732)
Cash and cash equivalents	46 678 818	-	46 678 818	145 033 293	98 354 475
	54 103 244	-	54 103 244	158 971 458	104 868 214

Non-Current Assets

Investment property	49 721 052	-	49 721 052	47 080 100	(2 640 952)
Property, plant and equipment	328 743 503	31 668 635	360 412 138	484 483 715	124 071 577
Intangible assets	500 004	-	500 004	446 857	(53 147)
Heritage assets	-	-	-	9	9
	378 964 559	31 668 635	410 633 194	532 010 681	121 377 487

Total Assets

433 067 803	31 668 635	464 736 438	690 982 139	226 245 701
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Liabilities

Current Liabilities

Lease obligation	-	-	-	10 711 811	10 711 811
Payables from exchange transactions	27 979 380	-	27 979 380	14 252 762	(13 726 618)
Unspent conditional grants and receipts	-	-	-	15 978 536	15 978 536
Provisions	-	-	-	315 243	315 243
	27 979 380	-	27 979 380	41 258 352	13 278 972

Non-Current Liabilities

Lease obligation	-	-	-	20 752 887	20 752 887
Employee benefit obligation	-	-	-	2 393 117	2 393 117
Provisions	4 365 235	-	4 365 235	6 914 675	2 549 440
	4 365 235	-	4 365 235	30 060 679	25 695 444

Total Liabilities

32 344 615	-	32 344 615	71 319 031	38 974 416
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Net Assets

400 723 188	31 668 635	432 391 823	619 663 108	187 271 285
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Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	400 723 188	31 668 635	432 391 823	619 663 108	187 271 285
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MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

Statement of compliance

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

Basis of measurement

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Reporting entity

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated as indicated in note 38. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

1.4 Value add tax

The municipality accounts for VAT on the payment basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1)(a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Investment property

Initial recognition

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the asset is acquired or as a consequence of having used the asset during a particular period. Where an asset is acquired at no cost, or for a nominal cost (i.e. a non-exchange transaction) its cost is deemed to be equal to the fair value of the asset.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

When significant components of an item of property, plant and equipment have different useful lives, residual values or depreciation methods they are accounted for as separate items (major components) of property, plant and equipment for the purpose of calculating depreciation. This is also done for recognition purposes where each component is recognised separately. The cost of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent Measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Useful lives, residual values and depreciation methods are reassessed annually and changes are accounted for as a change in estimate. Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated.

The depreciation charge for each period is recognised in surplus or deficit.

The annual depreciation rates are based on the following estimated average asset lives:

Asset Category	Average useful life
Other assets	5 - 10 years
Buildings	30 years
Other assets	5 - 10 years
Infrastructure	10 - 60 years
Community assets	30 years

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- (b) the cost or fair value of the item can be measure reliably

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with definite useful life amortisation is provided on a straight line basis over their useful life.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Initial recognition

The cost of an item of an asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Where an intangible asset is acquired in exchange for non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the deemed cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the assets given up.

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software - 3 to 5 years

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R1 for record keeping.

1.10 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

Key management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.11 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.11 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.12 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial instrument at fair value
- Financial instruments at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:

- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 Financial instruments (continued)

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

Impairment of financial assets

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.13 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The municipality recognises the aggregate payments as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Municipality as a lessor

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets includes.

- The assets ability to generate significant cash flows; and
- The degree to which it is utilised to generate commercial returns.

The carrying amounts of the municipality's non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset's fair value less costs to sell and its value in use.

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the depreciated replacement cost approach - The present value of the remaining service potential of a non cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exist, the entity shall estimate the recoverable service amount of that asset.

1.15 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Employee benefits (continued)

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgment. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Contingencies

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

1.17 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.18 Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant. If the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.22 Events after reporting date

The municipality discloses, for each material category of non-adjusting events after reporting date, the nature of the event and an estimation of its financial effect (if possible to estimate).

1.23 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.24 Commitments

Commitments relate to capital projects for which funds have been committed at year end. Commitments are not recognised as a liability in the statement of financial position or as expenditure in the statement of financial performance but are included in the disclosure note.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions in the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard has not yet been determined.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard has not yet been determined.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations. The Municipality, does however apply the principles enshrined in the standard when preparing its related parties disclosures as set out in note 25.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. Specifically it requires the grantor to recognise a service concession asset and related liability if certain criteria are met. The entity does not currently recognise an asset or obligation in respect of these arrangements.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables. Specifically it gives requirements on when a statutory receivables should be recognised and derecognised with reference to other GRAP standards i.e. GRAP on Revenue from Exchange Transactions. It also requires that statutory receivables be initially measured at transaction amount and subsequently using the cost method.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. Receivables from exchange transactions

Sundry suppliers	1 568 538	-
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The above receivables all relate to assets that have been paid for but were not delivered at year end. The municipality is actively following up on the matter. A significant portion of the balance (R1 450 000) relates to an item of plant procured under a finance lease.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
4. VAT receivable		
VAT refund due from SARS	11 144 656	2 634 033
The municipality is registered for VAT on the payment basis. VAT is claimed from / paid to SARS only once payment is made to suppliers or cash is collected on vatable supplies.		
5. Consumer debtors		
Gross balances		
Rates	18 903 610	17 689 146
Refuse	4 437 441	3 707 678
	23 341 051	21 396 824
Less: Allowance for impairment		
Consumer debtors impairment	(22 672 457)	(20 875 259)
Net balance		
Rates	18 903 610	17 689 146
Refuse	4 437 441	3 707 678
Provision for debt impairment	(22 672 457)	(20 875 259)
	668 594	521 565
Included in above is receivables from exchange transactions		
Refuse	4 437 441	3 707 678
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	18 903 610	17 689 146
	23 341 051	21 396 824
Gross balance		
Rates		
Current (0 -30 days)	531 176	396 126
31 - 60 days	475 831	377 923
61 - 90 days	452 674	362 934
91 - 120 days	17 443 929	16 552 163
	18 903 610	17 689 146
Refuse		
Current (0 -30 days)	93 574	77 212
31 - 60 days	89 819	75 612
61 - 90 days	88 380	73 824
91 - 120 days	4 165 668	3 481 030
	4 437 441	3 707 678
Impairment		
Consumer debtors impairment	(22 672 457)	(20 875 259)

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
5. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	315 119	258 131
31 - 60 days	289 956	248 819
61 - 90 days	278 181	249 929
91 - 120 days	16 184 831	14 272 270
	<u>17 068 087</u>	<u>15 029 149</u>
Less: Allowance for impairment	(16 691 147)	(14 879 684)
	376 940	149 465
Industrial/ commercial		
Current (0 -30 days)	136 813	160 617
31 - 60 days	119 032	154 034
61 - 90 days	112 817	142 563
91 - 120 days	5 181 087	4 674 716
	<u>5 549 749</u>	<u>5 131 930</u>
Less: Allowance for impairment	(5 386 034)	(5 031 529)
	163 715	100 401
National and provincial government		
Current (0 -30 days)	128 961	54 590
31 - 60 days	113 680	50 683
61 - 90 days	106 977	44 267
91 - 120 days	373 598	1 086 206
	<u>723 216</u>	<u>1 235 746</u>
Less: Allowance for impairment	(595 275)	(964 046)
	127 941	271 700
Total		
Current (0 -30 days)	580 893	473 338
31 - 60 days	522 668	453 536
61 - 90 days	497 974	436 759
91 - 120 days	21 739 515	20 033 191
	<u>23 341 050</u>	<u>21 396 824</u>
Less: Allowance for impairment	(22 672 456)	(20 875 259)
	668 594	521 565
Less: Provision for debt impairment		
General and specific impairment	(22 672 457)	(20 875 259)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(20 875 259)	(24 215 097)
Contributions to allowance	(1 797 198)	3 339 838
	(22 672 457)	(20 875 259)

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
6. Cash and cash equivalents		
Cash on hand	3 451	451
Cash at bank	4 225 035	-
Call Investment deposits	140 804 807	113 513 592
	<u>145 033 293</u>	<u>113 514 043</u>
Bank overdraft	-	(2 141 510)
	<u>145 033 293</u>	<u>111 372 533</u>
Current assets	145 033 293	113 514 043
Current liabilities	-	(2 141 510)
	<u>145 033 293</u>	<u>111 372 533</u>

The municipality had the following bank and investment accounts:

Account number / description (Continued)	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA Bank Limited - Account number 4048384454	-	-	-	-	-	(1 139 769)
First National Bank Limited - Account number 62231175953	6 886 128	3 651 650	9 677 585	4 225 037	(2 142 551)	9 460 514
Standard Bank Limited - Account Number 280775954	1 750 377	1 750 965	1 751 719	1 750 377	1 750 965	1 751 719
ABSA Bank Limited - Account number 9057233364	657 702	636 094	618 715	659 640	637 741	620 063
ABSA Bank Limited - Account Number 90565331155	42 464	41 254	40 307	42 567	41 345	40 380
First National Bank Limited - Account Number 62015966099	5 815	5 757	5 700	5 815	5 757	5 700
ABSA Bank Limited - Account Number 9205591041	1 667 488	1 611 434	1 562 565	1 672 215	-	1 566 417
First National Bank Limited - Account Number 62231177769	347 444	901 011	8 614 656	347 444	901 011	8 614 656
First National Bank Limited - Account Number 62231195323	89 438	87 337	85 194	89 438	87 337	85 194
ABSA Bank Limited - Account number 9100317908	174 082	168 287	163 184	174 575	168 737	163 586
First National Bank - Account Number 62232870487	720 363	699 893	683 578	720 363	699 893	683 578
ABSA Bank Limited - Account number 9110889747	281 560	280 088	279 574	281 687	280 169	279 597
First National Bank - Account Number 74321424942	134 384 097	106 846 239	46 226 468	135 060 784	107 324 899	46 426 065
	-	-	-	3 451	451	-
Total	147 006 958	116 680 009	69 709 245	145 033 393	109 755 754	68 557 700

Note 11 "Unspent conditional grants" reflects details as to which bank accounts are used for the various grants.

First National Bank Limited - Account Number 62231175953 is the municipality's primary bank account.

The bank overdraft of R0 (2014: R2 141 510) relates to the timing of transfers into the account and the effective dates of payments made. During the 2013/14 and 2014/15 financial years, the physical cash balance was never in overdraft.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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7. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	47 080 100	-	47 080 100	47 080 100	-	47 080 100

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	47 080 100	47 080 100

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	47 080 100	47 080 100

GRAP 100 Discontinued operations with an effective date 1 April 2014 was amended to exclude the requirement to separately disclose non-current asset held for sale. In accordance with the transitional provisions contained in GRAP 100.15 an amount of R957 000 previously included in non-current assets held for sale has been transferred back to Investment Property.

Rental income and operating expenditure relating to investment property was identified as not being material. As such these amounts have not been separately disclosed.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2015		2014	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
			Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	45 584 297	(15 003 847)	30 580 450	44 775 482
Plant and machinery	59 151 607	(11 458 559)	47 693 048	19 620 468
Infrastructure and community assets	649 703 838	(294 672 642)	355 031 196	637 001 213
Landfill site	6 336 479	(2 439 415)	3 897 064	2 216 046
WIP	47 281 957	-	47 281 957	17 415 566
Total	808 058 178	(323 574 463)	484 483 715	721 028 775
			(268 340 348)	452 688 427

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Change in estimate	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	32 019 318	134 064	-	-	-	(434 700)	(1 138 232)	30 580 450
Plant and machinery	11 444 949	39 437 895	-	-	-	93 244	(3 283 040)	47 693 048
Infrastructure and community assets	389 629 488	-	-	(2 281 325)	17 469 810	(355 047)	(49 431 730)	355 031 196
Landfill site	2 179 106	-	4 120 433	-	-	-	(2 402 475)	3 897 064
WIP	17 415 566	47 336 201	-	-	(17 469 810)	-	-	47 281 957
	452 688 427	86 908 160	4 120 433	(2 281 325)	-	(696 503)	(56 255 477)	484 483 715

Included in additions or plant and machinery is an amount of R34 318 050 relating to assets acquired under a finance lease. Refer to note 36 for details pertaining to the lease.

GRAP 100 Discontinued operations with an effective date 1 April 2014 was amended to exclude the requirement to separately disclose non-current asset held for sale. In accordance with the transitional provisions contained in GRAP 100.15 an amount of R1 157 500 previously included in non current assets held for sale has been transferred back to property, plant and equipment and is included as part of land and buildings.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Buildings	32 386 841	741 928	-	-	-	(1 109 451)	32 019 318
Plant and machinery	9 684 428	4 582 704	(221 136)	-	(93 244)	(2 507 803)	11 444 949
Infrastructure and community assets	426 210 770	-	(914 614)	13 994 479	-	(49 661 147)	389 629 488
Landfill site	2 188 341	-	-	-	-	(9 235)	2 179 106
WIP	12 891 336	18 518 709	-	(13 994 479)	-	-	17 415 566
	483 361 716	23 843 341	(1 135 750)	-	(93 244)	(53 287 636)	452 688 427

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

9. Intangible assets

	2015		2014	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software	610 417	(163 560)	446 857	168 154
				(80 161)
				87 993

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	87 993	442 263	(83 399)	446 857

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software	121 624	(33 631)	87 993

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
10. Payables from exchange transactions		
Trade payables	9 187 608	2 939 307
Debtors with credit balances	670 686	698 043
Accrued leave pay	3 340 187	3 513 482
Accrued bonus	826 848	641 852
Contract retentions	76 937	152 434
Other creditors	150 496	409 837
	14 252 762	8 354 959
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG) (Account Number: 74321424942)	15 978 536	20 053 536
Movement during the year		
Balance at the beginning of the year	20 053 536	13 014 215
Additions during the year	46 565 000	53 268 000
Income recognition during the year	(50 640 000)	(46 228 679)
	15 978 536	20 053 536

The reconciliation pertaining to MIG is included as part of Note 15 "Government grants and subsidies".

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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12. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Interest	Finance costs	Change in estimate	Total
Environmental rehabilitation	2 402 846	-	391 396	4 120 433	6 914 675
Other provisions	291 694	23 549	-	-	315 243
	2 694 540	23 549	391 396	4 120 433	7 229 918

Reconciliation of provisions - 2014

	Opening Balance	Additions	Interest	Total
Environmental rehabilitation	2 262 022	-	140 824	2 402 846
Other provisions	269 643	22 051	-	291 694
	2 531 665	22 051	140 824	2 694 540

Analysis of provisions:

Non-current liabilities	6 914 675	2 402 846
Current liabilities	315 243	291 694
	7 229 918	2 694 540

Environmental rehabilitation provision

Willowvale site

The Willowvale site's license is valid until 11 December 2015. An application requesting an extension to 11 July 2016 has been submitted to allow for the closure of the landfill site.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the site is expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site's lifespan expectancy from the end of the financial year is expected to be 1 year.

Dutywa site

The Dutywa site's license is valid until 18 July 2015. An application requesting an extension to 31 July 2016 has been submitted to allow for the closure of the landfill site.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the sites are expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site is lifespan expectancy from the end of the financial year is expected to be 1 year.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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12. Provisions (continued)

Elliotdale site

The Elliotdale site's license is valid until 17 December 2020, but is reviewed every 5 years.

An environmental specialist has been appointed to assist the Municipality with the management of this site. A recent review of the facilities indicated that the site needs to be upgraded to meet current environmental and legislative requirements. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed to enable the landfill site to continue operating as envisaged. Interactions with the Licensing Authority are currently in progress.

Based on the past usage the environmental specialist estimates that the landfill capacity is adequate up to 2037 provided:

- regular site upgrades are effected,
- the operations are properly managed and
- the license is renewed every 5 years

The provision for land rehabilitation is based on the current cost of the following activities being undertaken to close the site in 2037:

- Closing 1 cell, including capping
- Rehabilitation of the Leachate Pond
- Removal of any structures
- Storm water control
- Greening of site
- Ground water monitoring

The landfill site's lifespan expectancy from the end of the financial year is expected to be 22 years. Where appropriate a discount rate of 6% was used.

Other Provisions

This amount comprises a provision in favour of SARS for PAYE and resultant penalties and interest relating to a lumpsum payment made to a former Municipal Manager for which no PAYE was withheld. The Municipality has requested a tax directive from SARS. The likelihood and timing of the settlement is not as yet certain.

13. Employee benefit obligations

Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience.

An actuarial valuation was performed using generally accepted actuarial principles.

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosure shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25.

Defined benefit obligation

Opening balance	1 841 507	1 630 218
Benefits paid	(206 346)	(214 627)
Net expense recognised in the statement of financial performance	757 956	425 916
	2 393 117	1 841 507

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
13. Employee benefit obligations (continued)		
Amount recognised in surplus and deficit		
Past service cost	248 499	240 506
Interest cost	151 390	118 631
Actuarial losses	358 067	66 779
	757 956	425 916
Amount recognised in statement of financial position		
Benefit obligation	2 393 116	1 841 507
Reconciliation of net statement of financial position amount		
Opening balance	1 841 507	1 630 218
Amount recognised in Statement of Financial Performance	757 956	425 916
Payment made to pensioners	(206 346)	(214 627)
	2 393 117	1 841 507

Key assumptions

Discount rates used	8,50 %	8,50 %
Salary escalation rate	7,00 %	7,00 %

The above discount rates have been based on market indicators at each year end. For 2015 the rate is based on market yields on government bonds as at the end of June 2015 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1.5% applied in 2015 [2014: 1.5%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

Sensitivities

1% increase in discount rate	-	-
Decreases in defined benefit obligation	2 238 712	1 720 542
Percentage	(6,5)%	(6,6)%
1% decrease in discount rate	-	-
Increases in defined benefit obligation	2 568 413	1 978 919
Percentage	7,3 %	7,5 %
1% increase in salary inflation	-	-
Increases in defined benefit obligation	2 582 358	1 980 698
Percentage	7,9 %	7,6 %

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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13. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

14. Revenue

Service charges	1 024 394	764 933
Rental of facilities and equipment	988 282	761 979
Other income	1 085 204	620 848
Interest received - investment	9 273 742	6 022 423
Property rates	6 867 696	4 365 455
Licences and permits	722 749	951 983
Government grants & subsidies	220 520 286	183 369 750
Fines and Penalties	392 313	626 813
	240 874 666	197 484 184

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1 024 394	764 933
Rental of facilities and equipment	988 282	761 979
Other income (Refer to note 18)	1 085 204	620 848
Interest earned - investments	9 273 742	6 022 423
	12 371 622	8 170 183

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	6 867 696	4 365 455
Licence and permits	722 749	951 983
Transfer revenue		
Government grants & subsidies	220 520 286	183 369 750
Fines and penalties	392 313	626 813
	228 503 044	189 314 001

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
15. Government grants and subsidies		
Equitable share	162 715 000	136 195 000
Municipal System Improvement Grant	934 000	890 000
Integrated Electrification Programme	3 000 000	18 000 000
Finance Management Grant	1 600 000	1 550 000
Other government grants	178 286	946 071
Municipal Infrastructure Grant	50 640 000	23 788 679
Library subsidies	300 000	-
Extended Public Works Programme	1 153 000	2 000 000
	220 520 286	183 369 750

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	57 327 000	46 228 679
Unconditional grants received	163 193 286	137 141 071
	220 520 286	183 369 750

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Finance Management Grant

Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 600 000)	(1 550 000)
	-	-

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

Municipal Systems Improvement Grant

Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-

The Municipal Systems Improvement Grant is a conditional grant. The purpose of the MSIG is to support municipalities in building in-house capacity in terms of systems focusing on Local and Economic Development; financial viability, institutional development and good governance.

Municipal Infrastructure Grant

Balance unspent at beginning of year	20 053 536	12 014 215
Current-year receipts	46 565 000	31 828 000
Conditions met - transferred to revenue	(50 640 000)	(23 788 679)
	15 978 536	20 053 536

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

15. Government grants and subsidies (continued)

An amount of R7,462,000 was withheld by National Treasury due to unsatisfactory spending patterns at mid year.

EPWP

Balance unspent at beginning of year	-	1 000 000
Current-year receipts	1 153 000	1 000 000
Conditions met - transferred to revenue	(1 153 000)	(2 000 000)
	-	-

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

Integrated Electrification Programme

Current-year receipts	3 000 000	18 000 000
Conditions met - transferred to revenue	(3 000 000)	(18 000 000)
	-	-

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

16. Property rates

Rates charged

Assessment rates	6 867 696	4 365 455
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The above amounts are net of rebates amounting to R250 717 (2014: R234 585)

Valuations

The new general valuation came into effect on 1 July 2014.

A general rate of R 0.013 (2014: R 0.13) is applied to residential property valuations to determine assessment rates.
A general rate of R 0.014 (2014: R 0.15) is applied to business property valuations to determine assessment rates.
A general rate of R 0.016 (2014: R 0.16) is applied to government property valuations to determine assessment rates.

17. Service charges

Refuse removal	1 024 394	764 933
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The amount disclosed above for revenue from service charges is in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

18. Other income

Administration Fees	343 463	253 001
Building Plans	36 537	25 965
Burial and cemetery	2 243	1 687
Drivers and license testing ground fees	252 664	-
Public Toilets	45 956	52 263
Pound Fees	102 414	215 379
Roadworthy certificates	17 654	-
Sundry income	284 273	72 553
	1 085 204	620 848

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

19. Interest received - external investments

Interest revenue		
Interest on bank accounts and investment balances	9 273 742	6 022 423

20. Employee related costs

Bargaining council contributions	12 222	10 743
Basic	30 473 845	26 486 812
Bonus (13th cheque)	2 055 560	1 550 758
Casual wage employment	2 522	348 710
Cellphone Allowance	144 540	-
Housing benefits and allowances	1 197 295	805 723
Leave related costs	(71 099)	410 934
Long-service awards	551 610	211 289
Medical aid - company contributions	2 327 802	1 991 628
Overtime payments	1 228 537	1 853 642
Post-employment benefits	3 916 516	3 315 732
Skills Development Levy	596 826	509 724
Stand by Allowances	5 828	-
Travel, motor car, accommodation, subsistence and other allowances	581 355	363 826
Unemployment Insurance Fund	307 850	262 955
	43 331 209	38 122 476

Remuneration of Acting Municipal Manager

Annual remuneration	101 022	243 661
Backpay	-	7 025
Contributions to UIF, medical and pension funds	2 042	4 384
Travel, motor car, accommodation, subsistence and other allowance	7 043	33 279
	110 107	288 349

The following officials acted as Municipal Manager:

Mr S Ndakisa (July 2014)

Mr M F Nofemela (August 2014 - February 2015)

Remuneration of Municipal Manager

Annual remuneration	219 228	-
Travel, motor car, accommodation, subsistence and other allowance	73 324	-
Contributions to UIF, medical and pension funds	3 522	-
	296 074	-

Mr S V Poswa was appointed Municipal Manager from March 2015

Remuneration of Chief Finance Officer

Annual remuneration	366 719	498 397
Backpay	23 685	69 971
Bonus	13 500	-
Leave pay	68 317	-
Travel, motor car, accommodation, subsistence and other allowance	69 880	205 259
Contributions to UIF, medical and pension funds	6 912	129 024
Acting allowance	76 921	-
	625 934	902 651

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

20. Employee related costs (continued)

Mr S Ndakisa resigned as Chief Financial Officer in November 2014

Remuneration of Acting Chief Financial Officer

Annual remuneration	129 271	-
Backpay	51 461	-
Bonus	18 212	-
Acting allowance	323 322	-
Travel, motor car, accommodation, subsistence and other allowance	4 485	-
Contributions to UIF, medical and pension funds	47 723	-
	574 474	-

Mr L Nondonga was appointed as acting CFO from December 2014 and Mr V Jam Jam was appointed acting Chief Financial Officer from February 2015 to June 2015

Remuneration of Community Services Director

Annual remuneration	713 494	498 434
Backpay	52 122	69 971
Travel, motor car, accommodation, subsistence and other allowance	168 006	196 360
Contributions to UIF, medical and pension funds	11 478	120 880
Bonus	59 063	-
	1 004 163	885 645

Remuneration of Acting Corporate Services Director

Annual remuneration	347 210	305 825
Backpay	-	20 472
Bonus	-	56 133
Acting allowance	540 683	439 372
Travel, motor car, accommodation, subsistence and other allowance	35 857	37 758
Contributions to UIF, medical and pension funds	94 523	98 297
	1 018 273	957 857

The following officials acted as Corporate Services Director:

Miss G Sityata (July 2014 to March 2015)

Mr Nako (April 2015 to May 2015)

Corporate Services Director

Annual remuneration	47 268	-
Contributions to UIF, medical and pension funds	621	-
	47 889	-

Mr M P Nini was appointed as director from June 2015.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

20. Employee related costs (continued)

Remuneration of Acting Infrastructure Services Director

Annual remuneration	-	219 245
Backpay	-	23 963
Acting allowance	-	271 134
Travel, motor car, accommodation, subsistence and other allowance	-	55 855
Contributions to UIF, medical and pension funds	-	79 707
	-	81 608
	-	731 512

Mr S Gwentshe's portfolio was Acting Director for the period July 2013 to 30 November 2013, Mr A T Masangwana was appointed as Acting Director for the period 1 February 2014 to 28 March 2014.

Remuneration of Infrastructure Services Director

Annual remuneration	706 951	175 556
Backpay	52 019	-
Travel, motor car, accommodation, subsistence and other allowance	132 467	29 189
Bonus	46 667	-
Contributions to UIF, medical and pension funds	10 348	1 684
	948 452	206 429

Miss N Y Mqoqi was appointed as Director from 1 April 2014.

Remuneration of Acting Local Economic Development Manager

Annual remuneration	-	192 149
Backpay	-	44 327
Travel, motor car, accommodation, subsistence and other allowance	-	26 160
Contributions to UIF, medical and pension funds	-	64 583
	-	328 822
	-	656 041

Mr M K Mcopele was Acting Manager for the period 1 July 2013 to 28 February 2014.

Remuneration of Acting Land and Housing Manager

Annual remuneration	-	206 728
Backpay	-	44 327
Acting allowance	-	328 822
Travel, motor car, accommodation, subsistence and other allowance	-	18 133
	-	70 374
	-	668 384

Mr L Qunta was Acting Manager for the period 1 July 2013 to 28 February 2014.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
20. Employee related costs (continued)		
Planning and Development Director		
Annual remuneration	737 494	196 179
Travel, motor car, accommodation, subsistence and other allowance	168 006	70 079
Backpay	52 122	-
Contributions to UIF, medical and pension funds	11 127	37 516
	968 749	303 774
<p>The Municipality has adopted a new organogram for the year commencing 1 July 2013. This resulted in "Land and Housing" department and "Local Economic Development" department being merged to form a new department called "Planning and Development". Mr C B Mqingwana was appointed as director from 04 March 2014.</p>		
21. Remuneration of Councillors		
Council remuneration and allowances	21 814 912	18 866 589
Analysis of council remuneration		
Mayor	723 145	680 136
Speaker	577 576	543 911
Traditional leaders	133 450	141 530
Executive committee members	3 290 732	2 375 515
Councillors remuneration	10 900 973	9 726 376
Councillors allowances	1 561 297	1 725 758
Ward committee remuneration	4 627 735	3 673 362
	21 814 908	18 866 588
22. Finance costs		
Interest paid on trade and other payables	10 990	25 319
Finance cost on lease liability	3 576 311	-
Rehabilitation of landfill sites	391 397	140 824
	3 978 698	166 143
23. Debt impairment		
Contributions to debt impairment provision - consumer debtors	1 707 577	(4 028 499)
Bad debts written off	846 578	4 991 737
	2 554 155	963 238

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
24. Administrative and other expenditure		
Advertising	562 879	439 033
Audit committee fees	482 628	410 955
Auditors remuneration	2 893 254	2 637 083
Bank charges	410 168	119 751
Cleaning	356 055	403 188
Community development and public participation	568 391	770 014
Conferences and seminars	7 000	1 242 458
Consumables	1 513 604	35 265
Donations	188 965	299 406
Electricity	509 971	497 490
Entertainment	628 332	599 565
Equipment and plant hire	399 854	348 497
Expanded Public Works Programme	5 621 440	2 929 736
Flowers	226 853	-
Fuel and oil	1 134 019	1 194 353
IT Expenses	758 077	582 640
Indigent support	2 454 341	8 795 517
Insurance	707 229	351 724
Lease rentals on operating lease	1 436 337	1 387 310
Legal expenses	2 866 861	2 109 356
Magazines, books and periodicals	381 029	229 265
Medical expenses	11 925	-
Motor vehicle expenses	183 181	261 029
Other expenses	10 281 388	7 752 456
Penalties	163 763	-
Postage and courier	10 105	6 070
Printing and stationery	566 217	368 899
Professional fees	260 184	311 372
Projects	9 124 510	7 590 376
Promotions and Branding	-	85 000
Protective clothing	631 774	298 930
Refuse	844 260	343 673
Repairs and maintenance	11 728 173	31 700 235
Security	3 079 440	2 072 771
Software expenses	482 087	520 811
Special programme	1 943 984	951 397
Subscriptions and membership fees	333 115	457 017
Telephone and fax	1 412 868	1 379 346
Tourism development	950 620	766 781
Training	587 635	709 653
Travel - local	3 332 963	1 804 445
Water	2 891 296	523 638
	72 926 775	83 286 505

25. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	53 286 525	20 787 092
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MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

26. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

Related party balances

Loan accounts - Owing (to) by related parties

Nonjaca NV	5 061	4 892
N Mlungu	1 526	-

Amounts included in Trade receivable (Trade Payable) regarding deposits received from related parties for sale of land

M Peter	15 000	15 000
C Mqingwana	15 000	15 000
M Mbomvu	15 000	15 000
M Mcotsho	40 000	40 000
N N Ndlodaka	44 000	15 000
M Noyila	15 000	15 000
M Mfecane	20 000	20 000
M Nako	48 000	38 800

During the year the municipality sold land to the community. Included in deposits received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers. Transfer will only take place when the full price of the property has been paid. (Refer to Non-current assets held for sale, note 34, for more details).

Related party transactions

Related party transactions

Imitha Yelanga Engineers CC (Note 1)	-	86 654
Brother To Many CC (Note 2)	-	121 380

Note 1: Contract was awarded to the service provider prior to Mr P Rulumeni (who is a director of Imitha Yelanga Engineers CC) being elected as a councillor.

Note 2: Contract was awarded to the service provider prior to Mr C. B Mqingwana (who is a director of Brother To Many CC) being employed by the municipality as a director.

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

The services rendered to related parties are charged at approved tariffs that were advertised to the general public. Amounts outstanding are unsecured and will be settled in cash.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

27. Unauthorised expenditure

Opening balance	36 929 525	34 915 688
Unauthorised expenditure current year - non cash item	20 518 173	2 013 837
Less: Amount approved by council	(20 518 173)	-
	36 929 525	36 929 525

Description of incident

Overspending of INEG Grant	-	386 000
Overspending of MSIG Grant	-	17 102
Overspending of EPWP Grant	-	1 458 660
Overspending of FMG Grant	-	152 075
Depreciation not budgeted for due to restatement for Fixed Asset Register	20 518 173	-
Subtotal	20 518 173	2 013 837
	20 518 173	2 013 837

During the council meeting held on the 26th August 2015, the council resolved to approve the unauthorised expenditure incurred in the current year which relates to depreciation which is classified as non-cash item in the budget.

28. Fruitless and wasteful expenditure

Opening balance	6 002 126	5 539 843
Fruitless and wasteful expenditure - current year	249 512	462 283
	6 251 638	6 002 126

Details / incidents of fruitless and wasteful expenditure relating to this period only

Expenditure relating to catering	-	1 125
Accommodation	-	49 004
SARS interest and penalties	-	22 051
Invoice overstated	-	386 000
Interest on overdue accounts	10 990	4 103
Fruitless and wasteful expenditure identified by internal audit	238 521	-
	249 511	462 283

No fruitless and wasteful expenditure was condoned, written off or recovered during the year.

29. Irregular expenditure

Opening balance	114 548 925	93 587 075
Add: Irregular Expenditure - current year	3 293 034	21 049 570
Less: Amounts condoned	(114 548 925)	-
	3 293 034	114 636 645

During the council meeting held on the 26th August 2015 the council resolved to write off irregular expenditure incurred in the previous financial years.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
29. Irregular expenditure (continued)		
Details of irregular expenditure – current year		
Expenditure was more than R2 000 up to R10 000 and was procured without obtaining at least 3 written price quotations and the deviation was not approved by the CFO or his designate.		160 149
Expenditure was more than R10 000 up to R200 000 and was procured without obtaining at least 3 written price quotations and the deviation was not approved by the CFO or his designate.		801 347
Tender requirements not fully adhered to		1 370 357
Provider did not declare the following: i) Whether he is in the service of state or has been in the service of state for the previous 12 months; ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholders is in the service of the state, or has been in the service of the state in the previous 12 months;; iii) Whether the spouse, child or parent of the provider or a director, manager, shareholder or stakeholder of a provider who is a company or close corporation, is in the service of the state or has been in the service of the state for the previous 12 months.		245 980
Medichex Employer Contribution - Unaccredited medical aid		715 201
		3 293 034
Analysis of Irregular Expenditure Balance		
Irregular Expenditure identified by Internal Audit	2 577 833	-
Medichex Employer contribution - unaccredited medical aid	715 201	-
	3 293 034	-
30. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government - SALGA Fees		
Opening balance	435 873	993 792
Current year subscription / fee	593 850	459 873
Amount paid - current year	(36 000)	(24 000)
Amount paid - previous years	(435 873)	(993 792)
	557 850	435 873
Audit fees		
Current year subscription / fee	2 736 483	2 637 083
Amount paid - current year	(2 736 483)	(2 637 083)
	-	-
PAYE and UIF		
Current year subscription / fee	9 992 282	8 469 279
Amount paid - current year	(9 992 282)	(8 469 279)
	-	-

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

30. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current year subscription / fee	9 589 386	8 630 942
Amount paid - current year	(9 589 386)	(8 630 942)
	-	-

The municipality does not contribute to councillors' medical aid and pension plans. Refer to Note 26 "Related parties" for disclosure of amounts owed by councillors.

VAT

VAT receivable	11 144 656	2 634 033
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All VAT returns for the financial period except December and January were submitted by the due dates.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 40

Incident

Other minor breaches	546 045	353 475
Information technology upgrade	310 078	-
Upgrading of electricity services	3 000 000	-
Upgrading of road infrastructure	70 972 197	-
	74 828 320	353 475

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

31. Contingencies

Contingent liabilities

Litigation matters:

The municipality was party to the following litigations, however the financial impact has not been finalised as of yet:

The municipality is currently party to the following litigation:	Projected cost
Mbhashe Local Municipality vs Maqhula	8 000
Notyesi Inc. vs Mbhashe Local Municipality	35 230
Mbhashe Local Municipality vs Landisile Mithi and others	119 303
Mbhahse Local Municipality vs B.S. Titus Holdings and BP Garage	90 000
Mbhashe Local Municipality vs Mfecane Mbonvu and Janda	105 136
Madingana and others vs Mbhashe Local Municipality	150 000
Neville Borman and Botha vs Mbhashe Local Municipality	40 000
Moses Mbambo vs Mbhashe LM and others	400 000
	947 669

The following are litigations against the Municipality for which no estimate is available:

Mbhashe Local Municipality vs Zizi Agricultural Co-op and another

Mbhashe Local Municipality vs Mthetheleli Bhele and others

Mbhashe Local Municipality vs Somhlahlo

Mbhashe Local Municipality vs Pakama Gatyana

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

Mbhashe Local Municipality vs Thembelani Marafane

Sabelo Dumezweni vs Mbhashe Local Municipality and others

Mbhashe Local Municipality vs Pakama Gatyana

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

Mbhashe Local Municipality vs Thembelani Marafane

Sabelo Dumezweni vs Mbashe Local Municipality and others

Mangathi Community vs Mbhashe Local Municipality

Centre Point vs Mbhashe Local Municipality

Itu-Facility Trading Enterprise CC vs Mbhashe Local Municipality

A detailed register of litigation matters is maintained and available for inspection at the Municipality's registered office.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
32. Cash generated from operations		
Surplus	37 648 716	1 995 413
Adjustments for:		
Depreciation and amortisation	56 338 876	53 321 268
Loss/(gain) on sale of assets and liabilities	2 281 325	762 552
Debt impairment	2 554 155	963 238
Movements in operating lease assets and accruals	-	(21)
Movements in retirement benefit assets and liabilities	551 610	211 289
Movements in provisions	4 511 829	162 875
Other non-cash items	(3 545 935)	1 921 010
Changes in working capital:		
Receivables from exchange transactions	(1 568 538)	-
Consumer debtors	(2 554 155)	(885 523)
Other receivables from non-exchange transactions	149 464	(689)
Payables from exchange transactions	5 745 369	(1 005 044)
VAT	(8 510 623)	1 799 285
Unspent conditional grants and receipts	(4 075 000)	7 039 321
Other liability	23 549	-
	89 550 642	66 284 974

33. Risk management

Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

33. Risk management (continued)

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparts.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:	2015	2014
ABSA Bank	2 830 686	2 743 730
First National Bank (Primary Bank)	140 448 881	109 018 894
Standard Bank	1 750 377	1 750 965

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

34. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Historical monuments	9	-	9	9	-	9

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Heritage assets which fair values cannot be reliably measured

Graves, Caves and Memorial Sites

The municipality's heritage assets consists of graves, grave sites, traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to the nature of the assets. The assets have been allocated a nominal value of R1 for record keeping.

Following is the list of heritage assets:

- Graves (Gcaleka's Grave, King Hintsa's Grave and King Sarhili's Grave)
- Memorial sites (Nqadu Great Place, Fort Bowker and Fort Malan Memorial)
- Caves (Singumeni Caves, Ngqamakhwe Rock Art and Ludiza Cave)
- Mhlakaza's House
- Nongqawuse's House

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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35. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	556 377	705 841
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Receivables from non-exchange transactions

Balance as at 30 June 2015

	Gross Balances	Provision for doubtful debts	Net balance
Recoveries of staff expenses	220 174	(220 174)	-
SARS debtor	322 827	-	322 827
Other debtors	338 695	(105 146)	233 549
	881 696	(325 320)	556 376

Balance as at 30 June 2014

	Gross balances	Provision for doubtful debts	Net balance
Recoveries of staff expenses	220 174	(220 174)	-
SARS debtor	465 106	-	465 106
Other debtors	345 881	(105 146)	240 735
	1 031 161	(325 320)	705 841

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
36. Lease obligation		
Finance lease		
Minimum lease payments due		
- within one year	19 351 945	-
- in second to fifth year inclusive	25 802 593	-
	45 154 538	-
less: future finance charges	(13 703 948)	-
Present value of minimum lease payments	31 450 590	-
Present value of minimum lease payments due		
- within one year	10 700 872	-
- in second to fifth year inclusive	20 749 718	-
	31 450 590	-
<p>During the year Mbhashe Local Municipality entered into a finance lease to purchase 13 items of plant and equipment for the implementation of infrastructure related projects. The finance lease is for the period of 3 years with instalments payable monthly and bears an implicit interest rate of 32.25% per annum. At the end of the lease period ownership of all assets will transfer to Mbhashe Local Municipality</p> <p>The above finance lease is inclusive of an item of plant which at year end was still not delivered. An amount of R1 450 000 is included in the statement of financial position receivables from exchange transactions. This represents the cost of the plant still to be delivered.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
-within one year	74 603	673 084
- in second to fifth year inclusive	19 084	93 688
	93 687	766 772
<p>At the statement of financial position date, where the municipality is a lessee under operating leases, it will have an operating lease liability</p> <p>Operating lease payments represent rentals payable by the municipality for certain of its office equipment. No contingent rental is payable.</p> <p>The municipality is party to one operating lease commitment, which is a lease of a photocopier. The lease has come to an end as at 30 September 2016.</p>		
Opening balance	18 264	18 285
Movement for the year	(4 157)	(21)
	14 107	18 264
Short term portion	10 939	4 157
Non-current liabilities	20 752 887	4 157
Current liabilities	10 711 811	-
	31 464 698	4 157

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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37. Financial instruments disclosure

Categories of financial instruments

Financial instruments are classified in the following categories:

Financial assets: At amortised cost

Financial liabilities: At amortised cost

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. The amounts relating to financial instruments reflected below approximates fair value.

2015

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	556 377	556 377
Consumer debtors	668 594	668 594
Cash held with bank institutions	145 033 493	145 033 493
Vat receivable	11 144 656	11 144 656
	157 403 120	157 403 120

Financial liabilities

	At amortised cost	Total
Accrued bonus	826 848	826 848
Staff leave accrual	3 340 187	3 340 187
Trade payables	9 187 608	9 187 608
Provisions	7 229 918	7 229 918
Payments received in advance	670 686	670 686
Sundry creditors	150 496	150 496
Contract retentions	76 397	76 397
	21 482 140	21 482 140

Interest charged to overdue trade debtor accounts:

No interest is charged on over due trade debtor accounts. Had interest been charged at the prime interests rate the effects based on best estimate are as follows:

The net effect is not considered to have a material impact on the users understanding of the financial statements.

Interest charge at prime interest	2 160 329	-
Interest that would have been included in the impairment of debtors	(2 157 980)	-
	2 349	-

2014

Financial assets

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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Financial instruments disclosure (continued)

	At amortised cost	Total
Receivables from non-exchange transactions	705 841	705 841
Consumer debtors	521 565	521 565
Cash held with bank institutions	113 513 592	113 513 592
Vat receivable	2 634 033	2 634 033
	117 375 031	117 375 031

Financial liabilities

	At amortised cost	Total
Accrued bonus	641 852	641 852
Staff leave accrual	3 304 440	3 304 440
Trade payables	2 939 307	2 939 307
Provisions	2 694 540	2 694 540
Payments received in advance	698 043	698 043
Sundry creditors	409 837	409 837
Contract retentions	152 434	152 434
	10 840 453	10 840 453

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

38. Prior period errors

During the current financial period the following errors were identified with regards to transactions processed against accumulated surpluses prior to 1 July 2013. The corrections restated below have been effected to address these transactions. The net effect on Accumulated Surpluses is summarised below:

38.1 Accumulated surplus balance as at 1 July 2013 as previously reported

Accumulated surplus

Opening balance at 1 July 2013 as previously reported	- (333 472 983)
Reversal of carrying value of investment property as at 1 July 2013	- 54 704 471
Take on of corrected investment property opening balances as at 1 July 2013	- (47 080 100)
Reversal of carrying value of property, plant and equipment as at 1 July 2013	- 230 573 474
Take on of corrected property, plant and equipment opening balances as at 1 July 2013	- (483 361 716)
Reversal of carrying value of intangible assets as at 1 July 2013	- 453 953
Reversal of carrying value of intangible assets as at 1 July 2013	- (121 624)
Restatement of contract retention	- (2 044 684)
Other movement	- 216 928
	- (580 132 281)

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
38. Prior period errors (continued)		
38.2 Restatement of prior period figures as a result of errors identified:		
The amounts reported in the 2013/14 annual financial statements have been restated for the errors identified below. A summary of the adjustments follows:		
Statement of Financial Performance		
Surplus for the year as previously reported for the year ended 30 June 2014	-	41 410 109
Other capital movements	-	(3 515 476)
Expenditure on electrification project previously included in work in progress	-	(16 128 070)
Increase in depreciation charge as a result of corrected asset values	-	(19 535 090)
Restatement of capitalised/expensed assets	-	(236 059)
	-	1 995 414
38.3 Statement of financial position		
Investment property		
Balance previously reported as at 30 June 2014	-	535 265 583
Transfer from non current assets held for sale due to changes in GRAP 100 effective for periods starting on or after 1 April 2014	-	957 000
Net movements resulting from the take on of new asset values	-	(7 403 458)
	-	47 080 100
Property, plant and equipment		
Balance previously reported as at 30 June 2014	-	238 201 038
Transfer from non current assets held for sale due to changes in GRAP 100 effective for periods starting on or after 1 April 2014	-	1 157 500
Net movements resulting from the take on of new asset values	-	249 229 108
Increased depreciation charge	-	(19 535 090)
Net movement of assets incorrectly capitalised or expenses	-	(236 059)
Expenditure on electrification project previously included in work in progress	-	(16 128 070)
	-	452 688 427
Intangible assets		
Balance previously reported as at 30 June 2014	-	453 027
Net movements resulting from the take on of new asset values	-	(365 034)
	-	87 993
Non current assets held for sale		
Balance previously reported as at 30 June 2014	-	2 114 500
Transfer to investment property due to changes in GRAP 100 effective for periods starting on or after 1 April 2014	-	(957 000)
Transfer to property, plant and equipment due to changes in GRAP 100 effective for periods starting on or after 1 April 2014	-	(1 157 500)
	-	-
Payables from exchange transactions		
Balance previously reported as at 30 June 2014	10 038 164	-
Correction of contract retentions	(1 683 208)	-
	8 354 956	-

39. Events after the reporting date

Mr X Sikobi was appointed as the new Chief Financial Officer in July 2015

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

39. Events after the reporting date (continued)

During the course of July 2015 the Municipality concluded a new significant finance lease agreement for the purchase of items of plant and equipment needed to undertake infrastructure and related projects. The agreement is for a 3 year period and valued at approximately R105 million.

Subsequent to the submission of the Annual Financial Statements on 29 August 2014 an estimate cannot be made for all subsequent events.

40. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Infrastructure plant and equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations tot he value of R74 828 320 (2014:R 353 475.61 - restated) were approved during the financial year.

41. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

41.1 The reason for this variance is linked to the tariff that is being charged by the municipality versus the number of households that are billed. The Municipality did not adjust its budget for service charges after mid-year assessment. This was as a result of the low collection rate.

41.2 The Municipality adjusted its budget upwards based on the mid-year assessment.

41.3 Included in the budgeted amount is an amount for VAT returns of R9 000 000

41.4 The Municipality ensures that all its excess funds and grant allocations are invested when not required under call accounts to generate interest with minimum risk of any losses.

41.5 The reason for this variance is linked to the tariff that is being charged by the Municipality versus the number of households that are billed. The municipality did not adjust its budget for service charges after mid-year assessment. This was as a result of the low collection rate

41.6 The Municipality was not able to re-open its license testing centre during the year under review. Only learners licenses were issued.

41.7 There was an amount of R7 462 000 for MIG that was withheld by National Treasury due to low spending patterns in the earlierpart of the 2014/15 financial year.

41.8 The collection rate was lower than the budgeted amount due to the lack of capacity in the law enforcement unit. The Municipality is addressing these constraints as vacancies are planned to be filled in 2015/16 financial year.

41.9 The Municipality had a high vacancy rate and was unable to fill all the budgeted posts as at year-end.

41.10 The Municipality entered into a lease agreement to acquire plant machinery instead of hiring the plant as initially planned and this acquisition increased the depreciation.

41.11 Finance lease entered into the acquisition of plant

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
-----------------	------	------

41. Budget differences (continued)

41.12 Actual amount of R1 436 337 is recorded under general expenses.

41.13 This relates to the bad debts written off for settling 50% of their outstanding debts as per the agreed incentive between them and the municipality. The portion of the actual write off during July 2014 was funded by the 2013/14 budget allocation.

41.14 A substantial portion of this budget was used to finance the finance lease for plant and machinery.

41.15 The Municipality restated the fixed asset register in 2014/15 which resulted in significant variances between the budget and actual figures